noranda

REPORT OF THE
ANNUAL MEETING
APRIL 27, 1973

ANNUAL MEETING REPORT

This brief report has been prepared for the benefit of shareholders who were unable to attend the Annual Meeting.

The meeting was convened at 2:30 p.m. at the Royal York Hotel, Toronto, with about 575 in attendance. Alfred Powis, President of the Company, acted as Chairman. There were 17,329,759 shares, or 71.28% of the total shares outstanding, represented either in person or by proxy.

The Annual Report, including the Auditor's Report, was submitted to the meeting.

The following shareholders, who were present, were elected directors of the company: John R. Bradfield, James C. Dudley, Louis Hebert, William James, Leonard G. Lumbers, David E. Mitchell, Andre Monast, Richard V. Porritt, Alfred Powis, William S. Row, John D. Simpson and William P. Wilder. Tribute was paid to the Hon. G. B. Foster, who had retired from the Board after 19 years of outstanding service to the Company, and Mr. David E. Mitchell was welcomed as a new member of the Board.

Clarkson, Gordon & Co., Chartered Accountants, were re-appointed auditors.

Special Resolution No. 2, authorizing the change in capital to Class A and Class B shares, was confirmed 16,934,496 shares to 49,531. It was pointed out that the amendment to the Income Tax Act referred to in the Information Circular permitting a tax-free roll-over on conversion of one class of shares into the other had been enacted during April. Accordingly, it was proposed to alter the share capital to take effect prior to declaration of the dividend normally payable in September.

Following completion of the formalities of the Meeting, questions were invited from the floor and were answered as follows:

A shareowner noted the Annual Report mentioned that working capital would be increased as a result of the decrease in capital expenditures, unless as yet "unknown capital expenditures" occurred during 1973. Mr. Powis answered that, while there are no new major capital expenditures contemplated, the

qualification referred to the possibility that opportunities to take part in new developments could present themselves, and this would be the type of unexpected capital expenditure to which the Report alluded.

In response to a question as to whether the current price of Noranda shares justified a stock split, Mr. Powis said that, while it had been discussed, the Board of Directors had not been asked to consider such a move.

A shareowner who wished to know the extent of Noranda's Canadian ownership was told that 29,132 of Noranda's 31,804 shareowners, or 91.6%, were Canadians. Of the 24,313,000 shares outstanding, 22,672,839, or 93.26%, were held in Canada.

A shareowner stated that the last time the London Metal Exchange price of copper was in excess of the domestic Canadian price, Noranda's earnings suffered as a result of government interference. He wished to know if there was a possibility of this re-occurring. Mr. Powis replied that both the government and Noranda had learned a great deal from this experience, and as a result of greater dialogue and information which Noranda has supplied to the government, there was little likelihood of the situation arising again.

Replying to an inquiry regarding Noranda's policy on charitable and political donations, Mr. Powis said that funds for charitable requests were budgeted each year, and assessed and allocated by a Company donations committee which meets regularly. Political contributions represented a very small fraction of one cent per share of Noranda's earnings.

ADDRESS OF THE PRESIDENT TO THE SHAREHOLDERS AT THE ANNUAL MEETING

Ladies and Gentlemen:

Last year was not a particularly good one for the mining industry. Although there was general economic recovery and increased metal consumption during 1972, metal prices tend to lag behind the business cycle and generally remained at low levels. In Canada, the problem was compounded by the relatively high value of our dollar. At the same time our costs, which are not responsive to economic conditions, continued to climb very much more quickly than any feasible gains in productivity. The net result for Noranda was a decline in earnings during 1972 from mining and metallurgical operations.

However, for Noranda the year was redeemed by a good showing in manufacturing and forest products, each of which more than doubled its contribution to earnings. The main factor was a booming housing market in North America which caused strong demand for building products, although improved demand for other products also contributed. As a result, there was a modest 6% increase in Noranda's overall earnings in 1972.

As forecast last year, working capital declined during 1972 although not as much as originally expected due to delayed spending on major capital projects. Even with the carryover from 1972, capital expenditures and major investments will be lower this year unless something unexpected arises, and working capital should increase.

OPERATIONS

The largest part of last year's capital expenditure was for the expansion of copper production capacity in Quebec. This program has now been generally completed at a cost close to the budget of $133 million. The increased capacity of the Montreal East refinery became available late in 1972, and the new commercial-sized Noranda Continuous Smelting Process Reactor began producing copper last month. At Gaspe Copper, the enlarged mining, concentrating and smelting capacity is now in partial operation and the new acid plant should begin production next month. However, completion of the oxide ore leaching facilities has been delayed until later in the year by construction labour difficulties. A $5.8 million further expan-

sion of the Montreal East refinery, which represents an increase in the scope of the original project, should also be completed by the end of the year.

Special mention should be made of the Noranda Continuous Smelting Process. As expected, a number of problems have been encountered in starting up the commercial-sized reactor but these have been largely mechanical in nature and have given us no cause to question the viability of the process itself. Moreover, in 1972 continued pilot plant work indicated that a 50% increase in throughput can be achieved through use of oxygen, the cost of which is offset by reduced fuel consumption. On the basis of this significant development and the results of the production unit to date, we believe that the Noranda Process has a significant competitive advantage. Considerable interest has already been expressed by others, and preparations are being made to market the process.

The conversion of the Brunswick zinc-lead smelter to a lead smelter was delayed by construction labour problems. The smelter was eventually started up in late February and is now generally operating as expected. During the first quarter some production has been lost at the mine due to electrical problems with the new hoist motors, and extra shipping costs were incurred due to unusually severe ice conditions in the gulf. However, results for the balance of 1973 should be substantially improved.

During the last few months, new collective agreements have been successfully negotiated at a number of important operations. However, strikes have occurred at two locations. At Brenda Mines, operations were halted by a strike which started March 10 and ended April 12. At the Geco mine, a strike started on April 12 and still continues.

Noranda's newest producer, the Bell Copper Division, treated slightly more than its rated capacity of 10,000 tons of ore per day during the first quarter of this year. At Brenda Mines, cash generated from start-up to date has been less than originally expected, as weak molybdenum markets resulted in a substantial build-up of inventory. This created a problem relating to Brenda's debt repayment schedule, which has been solved by a refinancing involving extension of the term of the company's loans.

At a number of previous meetings, we have referred to the great emphasis placed on safe working conditions at all locations. Last year, we were able to report that four operations in the Noranda group had won regional trophies for having the lowest accident frequencies in their respective areas in 1971.

We are now proud to report that Mattagami Lake Mines has won the 1972 trophy for all of Canada.

As indicated in the Annual Report, British Columbia Forest Products' new Mackenzie pulp mill started production near the end of 1972. Recent pulp mill start-ups have been notoriously difficult, but in this case no significant problems were encountered. In fact, the mill actually began making a contribution to earnings in February, a remarkable performance and a great credit to all involved in the project.

On the other hand, the Annual Report referred to the problems of Fundy Forest Industries, a company for which Northwood Mills had guaranteed some $5.7 million of bank loans in exchange for an equity position. The alternatives open to Northwood were either to take control of the management and financing of the company or to absorb a loss of about $3 million after taxes. A thorough examination of the situation led to the decision that we should not become further involved, and the company is now bankrupt. Northwood's $3 million loss will be written off against 1973 earnings in equal quarterly amounts.

MARKETS

As indicated earlier, the strong economic performance of the major industrial countries during 1972 led to sharp increases in consumption for most of the metals Noranda produces, but was not reflected in prices until the early months of this year.

During 1972, commodity exchange stocks of copper were high and growing. With production forecast to be surplus to requirements for a considerable period, users' inventories throughout the distribution system were low relative to the increased volume of business. Although strong growth in consumption altered the market balance, this change was not generally recognized until efforts by fabricators to rebuild inventories caused a surge in demand in January. At the same time, unexpected supply problems developed.

The result has been a sharp decline in commodity exchange stocks and a surge in copper prices overseas from a low of 45¢ per pound last fall to the current level of over 70¢. The less volatile North American producer prices have reacted by rising from 50½¢ at the year end to current levels of 60¢. From the standpoint of Noranda's earnings, these developments are very favourable, and we do not believe that the current North American producer price is unduly high. At last year's Annual Meeting, it was stated that an average copper price of at least 55¢ in 1971 dollars was necessary to justify

additional capacity. Having regard to the rate of inflation since 1971 and recent currency realignments, this is equivalent to at least 60¢ today. When minor changes in the market balance cause such wide swings in the London Metal Exchange quotation, realistic forecasting of copper prices is almost impossible. Moreover, such volatile price movements are unsatisfactory for producers and consumers alike. All that can be said at this point is that overseas prices should remain over 65¢ in the near term, and we can detect nothing in the present situation which would lead to any weakening in present North American price levels.

Zinc prices ran counter to the trend last year, as more uneconomic smelters were closed. Metal production was at capacity from mid year, although mine production remained below capacity, and prices increased to 18.4¢ per pound overseas and 19½¢ in North America. However, the situation in the U.S. was confused and distorted by controls which held the prices of domestic producers to a level of about 18¢. In January of this year, changes in U.S. controls allowed domestic producers to raise their prices to about 19½¢. In late February, following devaluation of the dollar, the overseas price was adjusted upward to the equivalent of 21½¢ per pound and North American prices were raised by varying amounts. Zinc consumption is strong and rising, and the outlook is for continuing strong markets.

The Annual Report referred to the problems created for Central Canada Potash by the Saskatchewan government's new basis of prorationing. The effect of the previous basis was that each producer was guaranteed a 40% operating rate, with any additional demand being filled by those with markets. Coupled with this was a floor price on shipments. On this basis Central Canada Potash, although in fundamental disagreement with the prorationing and floor price concept, had largely been able to meet its contractual market commitments.

Effective July 1 of last year, however, the basis was changed to flat prorationing under which each producer would operate at the same percentage of capacity irrespective of market commitments. Based on estimated markets for 1972-73, the operating rate was established at about 50% of capacity for each producer. This new basis restricted Central Canada Potash to shipping only 740,000 tons compared to the 1.1 million tons delivered in the previous year and the 1.3 million tons of contractual commitments to our customers this year.

For Noranda, the result has been confiscation without compensation of a market acquired at considerable cost, and

without which we would not have placed the mine in production. By its action the Saskatchewan government has forced Central Canada Potash to subsidize other producers which improvidently brought mines into production without markets for their output. Moreover, the result has hardly been satisfactory for the Province. In effect, through this program Saskatchewan has taken upon itself the entire burden of world over-capacity. While mines in Canada are operating at half capacity, those elsewhere are producing at very high rates. Nor is the outlook for a significant increase in Canadian production encouraging. Under the umbrella of Saskatchewan's prorationing and floor price program, new capacity elsewhere in the world will probably absorb almost all of the growth in demand during the remainder of this decade. The real beneficiaries of this program are Saskatchewan's foreign-owned producers, which control two-thirds of U.S. capacity and virtually all of the production in Western Europe.

The loss of profits to Central Canada Potash resulting from this new basis of prorationing exceeds $500,000 per month. An effort to obtain a writ requiring the issue of the potash producing license requested failed in the courts. Now before the courts is a second action challenging the constitutionality of the prorationing regulations and claiming damages. Resolution of this action may take some time, but in the meanwhile we will continue our efforts to persuade the Saskatchewan government to abandon its prorationing and floor price system. In no other way can Canadian potash obtain its fair share of world markets.

While primary aluminum prices remained at depressed levels through 1972, lower production and a sharp pick-up in demand have reduced inventories and prices have firmed during the past two months. The outlook seems to be for an industry operating rate close to capacity by the end of this year and a continued firming of prices. At Noranda's plant at New Madrid, a substantial investment was made as part of the original project to accommodate additional capacity, and there is an attractive option on the power necessary to support a second potline. Investigations into the most appropriate course of action for the future are underway.

Turning to other products, public mistrust of currencies and limited new supplies have combined to push the price of gold to record levels and, while the role of silver as a monetary metal has declined, its price is still affected by the speculative market conditions. Silver availability may be increased by stockpile releases, but the quantity of gold available for hoarding is declining relative to demand. Molybdenum markets were

weak in 1972, and inventories remained at excessive levels despite mine cutbacks and closures; however, conditions have been improving in recent months. Rising lead consumption has resulted in an increase in the North American price to 16¢ per pound and to even higher overseas quotations. For most manufactured products, markets remain strong.

In forest products, the demand for pulp is strong and prices are rising significantly. Lumber prices are at very high and perhaps excessive levels, and may well decline later this year if housing activity levels off. Major producers have actually attempted to moderate the lumber price increases, but the structure of the market makes this impossible. In this regard, it should be recognized that in British Columbia it is governments, and not the producers, which derive the most benefit from high prices, taking from 60% to 85% of any increases in higher stumpage and taxes.

BUSINESS CLIMATE

Thus, the markets for most of the products of the Noranda group are favourable at the moment and the outlook for 1973 seems bright. However, as indicated in the Annual Report, the longer term outlook is clouded by continuing cost inflation, confusion with respect to the Canadian tax system, a precarious international situation and uncertainty concerning government policies and attitudes as they affect the mining industry.

While reliable figures are not available, it is apparent that mining exploration activity in Canada has fallen far below potential in recent years and, while the time lags are long, this cannot fail to have an impact on future developments. There seem to be a number of reasons for this. One obviously is the long period of uncertainty regarding the tax structure, and the subsequent legislation which removed most of the previous incentives. Another is our soaring cost structure, not only in operations but even more importantly in construction. Over the past seven years, the cost of placing a new mine in production or of building a smelter or refinery has doubled. Other reasons include uncertainty with respect to foreign ownership policies and the recent economic recession.

Whatever the reasons, the reduced level of exploration is reflected in the fact that there have been relatively few substantial new discoveries in Canada recently. During 1972, capital expenditures for development of new mines and expansion of existing ones were in the order of $1 billion, but it is important to recognize that these were the result of discoveries

made some time ago. There are very few large ore deposits in Canada awaiting development, and most of these are in British Columbia where the attitude of the provincial government casts a considerable cloud over the future. Thus, for 1973 it appears that capital expenditures in mining will be very substantially reduced, and will be largely for projects carried over from 1972.

Whether this will prove to be a temporary pause or the beginning of prolonged stagnation is a matter of conjecture, but given present attitudes toward the industry there is a real danger of the latter. Canada still has an enormous potential for mining development, but this will never be fulfilled unless encouragement is given to the needed exploration effort. Government policies, however, seem to be pulling in the opposite direction, particularly in certain provinces where current attitudes threaten to eliminate large and highly prospective areas of the country from exploration by private enterprise. There are some who argue that a decline in the mining sector would be a good thing, as more capital would then flow to the more labour-intensive manufacturing and service sectors. Although it is clearly nonsense, this idea seems to be gaining in acceptance through constant repetition, and there is evidence that governments have been influenced by it.

The first evidence of this was the recent so-called tax reform legislation which removed most of the incentives previously available to mining. More recently, the government of British Columbia has created enormous uncertainty about future provincial taxes and has proposed new legislation which would virtually eliminate exploration in that province. The most extreme example, however, is a bizarre report written for the Manitoba government by Professor Eric Kierans.

In essence, this report characterizes the mining industry as one which earns "super profits" or "excessive returns", an inadequate proportion of which is returned to the people of the province who own the resources. Proposed remedies include measures which would effectively confiscate without compensation the existing mining and concentrating operations in Manitoba. For the future, it is proposed that all exploration be conducted by the province at the rate of $4 to $5 million per year, and that all new mines so discovered be developed by crown corporations. The result of such a program is postulated to be ten new operating mines within ten years earning $128 million annually on an initial investment of $25 million.

To anybody familiar with mining, the description of the industry contained in the report is completely unreal. Much of

the report is simple assertion, but where it is based on analysis it is naive, simplistic and guilty of a selective use of statistics. In preparation of the report it is apparent that no effort was made to consult with people knowledgable about the industry. The result is that the premises on which the report's conclusions are founded are gross distortions of reality. One would have expected that such an example of shoddy scholarship would be received with the indifference it deserves. Instead, it is being taken seriously in some quarters. Moreover, the author has subsequently made it clear that the policies proposed should apply to all jurisdictions in Canada.

To illustrate the premise that an inadequate return is paid to the people who own the resources, the report uses a highly suspect set of statistics from the late 1960's when conditions in the industry were extraordinarily good and an unusually large number of new mines were in their three-year periods of tax exemption. In addition, whatever the merits of the various tax incentives previously available to the industry, they have been largely eliminated. Thus even if the statistics were right — which they are not — they are no longer relevant. Moreover, it is necessary to repeat the truism that, while mineral resources may belong to the people as a whole, enormous amounts of high-risk capital must be spent on their discovery and subsequent development before they become assets.

With respect to the so-called super profits, the Manitoba report reconstructs Statistics Canada data for 1969 and concludes that the industry earned 34.4% on operating assets and would have earned closer to 50% had its costs not been inflated. Actually, the report distorts these data, which clearly demonstrate that a segment of the industry earned a 17.7% rate of return in 1969 — an unusually good year — on assets which in many cases were installed years before when capital costs were very much less.

As for the real profitability of the industry, a recent study conducted by a respected international body is more reliable. This study states that, while it is commonly believed that the mining industry is one of high profits, the data offered to support this claim frequently take account of the larger, more successful projects and companies only and are not representative of the industry as a whole. It concludes that, if all exploration expenditures were included, the industry is one of average to above average profitability, but also one in which numerous entities too small to spread their risk have failed. It states that occasional very high-profit projects do exist, but that these are necessary to attract the large amounts of exploration venture capital required. It points out that the successful

projects must cover those unable to repay their capital, so that the industry as a whole can be viable. It also refers to another study, conducted for the U.S. Bureau of Mines, which shows that average annual earnings on U.S. investment in Canadian mining returned less than 10% during the period 1954 to 1967.

Thus, any serious study will reveal that "super profits" for the mining industry are the exception, not the rule, and yet the myth persists. The policies recommended by Professor Kierans would lead to a misallocation of the taxpayers' money, and to the immediate stagnation and ultimate decline of the mining industry. In fact, the mere existence of these recommendations creates uncertainty which, if not soon dispelled, will lead to the same result. And it is doubtful whether anything of comparable value — in terms of tax revenues, employment, export earnings, etc. — can be created to take its place.

Canada's position in the world economy is sufficiently precarious that we should be cautious about weakening any of those industries in which we have a comparative advantage. We stand almost alone in a world of massive trading blocs and our viability depends heavily on significant trade liberalization. However, with an increase in isolationist sentiment in the United States and with the European Economic Community preoccupied with internal integration, the prospects for meaningful trade liberalization seem somewhat bleak. The alternative could be a trade war in which Canada, of all industrialized countries, stands to lose the most. The situation demands flexibility and strong political leadership which unfortunately seem impossible in our present circumstances.

Another problem created by our present political situation is the fate of the tax measures proposed in the federal budget of last May. This budget, apparently as part of a new industrial strategy, proposed a permanent tax reduction for manufacturing and processing industries as well as accelerated write-offs for new equipment. The stated aim was to stimulate this sector of the economy to create the productive jobs Canada so badly needs, and the Minister of Finance made it perfectly clear that the private sector in effect was on trial — the government was creating a climate for profitable investment and it was up to the private sector to produce.

This sort of approach, unfortunately unique in recent Canadian experience, might have produced the desired results, but tragically it has degenerated into a farce. The government neglected to enact the new proposals before failing to win a majority in last October's election. One opposition party is opposed to them on ideological grounds and another, anxious

to bring the government down on any pretext, has indicated it will support them only if they are limited to 1973. Since the tax changes were designed to stimulate activity by enhancing the return on new investment, any limitation to 1973 only would clearly render them useless. If these measures are not enacted as originally proposed, the credibility of governments — whatever their political affiliation — will be eroded to the point where the private sector is likely to view any future efforts in this direction with a high degree of skepticism. It will no longer be good enough to rely on statements of government intent. Noranda has fallen into this trap by committing itself to substantial expenditures based on the announcement of these and other similar proposals. At the very least, based on this experience, it will in future be necessary to examine the resulting legislation and all relevant regulations prior to committing capital on the basis of stated government intentions.

These and other problems suggest that the longer term future, not only of Canadian mining but also of industry generally, is precarious despite the improved short-term outlook. At a time when we should be strengthening our industries to withstand the increasingly difficult external conditions which seem inevitable, we are preoccupied with irrelevant internal squabbles. The private sector is increasingly subject to uninformed, but strident and widely publicized, attacks from all quarters which seem to have an undue impact on government policies. And few people outside the private sector (which is not notably articulate) seem prepared to defend a system which for all its faults, has given Canada the world's second-highest standard of living and, according to one study, the world's highest standard in terms of the quality of life.

At the moment, the resource industries seem to be bearing the brunt of the assault, but what is really under attack is the private sector as a whole. And in the process, the vitality of the private sector is steadily and insidiously being sapped. In an attempt to respond to this situation, Noranda employees are involved in a wide variety of activities. Of course, these include a growing volume of representations to governments on matters related to the Company's affairs, both by ourselves and through various industry associations, and significantly increased advertising and public relations activities. In addition, however, Noranda people are active in many cooperative efforts with governments including participation in trade and investment missions abroad, joint research on pollution control methods, service on formal advisory committees and boards, and informal consultation on problems of common concern. We are also involved in a wide range of other activities with particular emphasis on community affairs.

These activities require a significant proportion of the time of many Noranda people, but they are encouraged despite the sacrifices involved by both the individuals and the Company. Nevertheless, their effectiveness is obviously less than satisfactory, and we consider it essential that an even stronger effort be made to improve communications and understanding between the private sector and others. Of course, this effort will be worse than useless unless we have something worthwhile to say, but we believe we have. And unless industry does a much more effective job in this area, its strength will continue to be eroded with ominous implications for the quality of life and standard of living of Canadians.

OUTLOOK

In any event, as stated earlier, the 1973 outlook for Noranda is very favourable, with markets substantially improved for all major products except potash. As indicated in the Annual Report, Noranda will report its earnings this year on the basis of equity accounting — that is, earnings will include our equity in the undistributed earnings of corporations less than 50% owned. We are in the ridiculous position of being unable to state exactly what first quarter earnings are, because we do not know what the applicable tax rates will be for many of our operations. Assuming the proposed tax changes are not enacted, earnings on an equity accounting basis during the first quarter of the year were 89¢ per share, about 60% higher than the restated earnings of 55¢ during the same period of 1972. Had we not changed the basis of reporting, first quarter earnings would have been 73¢ per share compared with 50¢ last year. If the proposed tax changes are enacted, the figure for the first quarter of 1973 would be about 6¢ per share higher.

During the first quarter, the largest contribution to the improvement in results came from manufacturing and forest products operations, which earned nearly four times as much as during the same period of 1972. Despite higher prices, earnings from mining and metallurgical operations improved only 20% due to the problems at Brunswick referred to earlier, the Brenda strike, curtailed potash operations and reduced production at the Horne and Geco mines. As the year progresses, however, the impact of the expansion program, higher prices and improved production at Brunswick should result in a very strong showing from mining and metallurgical operations. Second quarter results will be adversely affected by start-up costs and the Geco strike, and the first quarter level of earnings from manufacturing and forest products probably

cannot be sustained. Nevertheless, for the year as a whole earnings should be substantially improved over 1972. At their meeting this morning your Directors declared an increased dividend of 35¢ per share payable June 15 to shareholders of record May 11.

The difficulties referred to earlier obviously obscure the longer range future of Noranda. Looking at the bright side, however, Noranda's operating base is sound and growing, and most of its products should remain in demand regardless of whether international trade problems develop. Most importantly, I believe we have an extraordinarily talented and effective group of employees, with the ability and flexibility to adapt to whatever changes in direction and emphasis may prove necessary.

Printed in Canada